

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Township of North Star	County Gratiot
Fiscal Year End 3/31/06	Opinion Date 4/18/06	Date Audit Report Submitted to State 7/21/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

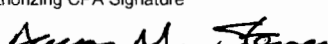
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Zip 48823			
Authorizing CPA Signature 	Printed Name Aaron M. Stevens, CPA	License Number 1101024055	

**Township of North Star
Gratiot County, Michigan**

FINANCIAL STATEMENTS

March 31, 2006

Township of North Star
Gratiot County, Michigan
March 31, 2006

Mr. Howes Smith	Supervisor
Ms. Heidi Drowley	Clerk
Ms. Cheryl Richmond	Treasurer
Mr. Robert Brandal	Trustee
Mr. John Hardman	Trustee

Township of North Star

TABLE OF CONTENTS

March 31, 2006

PAGE

INDEPENDENT AUDITOR'S REPORT	i-ii
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds Balance Sheet	3
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6
Statement of Net Assets - Proprietary Fund	7
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Fund	8
Statement of Cash Flows - Proprietary Fund	9
Notes to Financial Statements	10-18
REQUIRED SUPPLEMENTARY INFORMATION	
GENERAL FUND	
Budgetary Comparison Schedule	19-20
FIRE & RESCUE FUND	
Budgetary Comparison Schedule	21
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	22

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

To the Members of Township Board
Township of North Star
Ithaca, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Township of North Star, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of Township of North Star's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and each major fund of the Township of North Star, Michigan as of March 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2006 on our consideration of the Township of North Star's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The budgetary comparison information, as identified in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Township has not presented a management's discussion and analysis (MD&A), which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that the MD&A is necessary to supplement, although not required to be part of the basic financial statements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 18, 2006

BASIC FINANCIAL STATEMENTS

Township of North Star
STATEMENT OF NET ASSETS

March 31, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash	\$ 61,919	\$ 9,999	\$ 71,918
Receivables	4,839	20,827	25,666
Prepaids	3,728	-	3,728
	<hr/>	<hr/>	<hr/>
Total current assets	70,486	30,826	101,312
Noncurrent assets			
Capital assets not being depreciated	29,383	41,065	70,448
Capital assets, net of accumulated depreciation	143,385	276,000	419,385
	<hr/>	<hr/>	<hr/>
Total noncurrent assets	172,768	317,065	489,833
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	243,254	347,891	591,145
LIABILITIES			
Current liabilities			
Accrued interest payable	192	-	192
Current portion of long-term debt	7,921	5,000	12,921
	<hr/>	<hr/>	<hr/>
Total current liabilities	8,113	5,000	13,113
Noncurrent liabilities			
Noncurrent portion of long-term debt	107,723	284,000	391,723
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	115,836	289,000	404,836
NET ASSETS			
Invested in capital assets, net of related debt	57,124	28,065	85,189
Restricted for debt service	-	2,122	2,122
Unrestricted	70,294	28,704	98,998
	<hr/>	<hr/>	<hr/>
TOTAL NET ASSETS	<u>\$ 127,418</u>	<u>\$ 58,891</u>	<u>\$ 186,309</u>

See accompanying notes to financial statements.

Township of North Star

STATEMENT OF ACTIVITIES

Year Ended March 31, 2006

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Governmental activities							
General government	\$ 54,013	\$ 4,496	\$ -	\$ 4,800	\$ (44,717)	\$ -	\$ (44,717)
Public safety	33,698	-	-	-	(33,698)	-	(33,698)
Public works	26,803	-	3,564	-	(23,239)	-	(23,239)
Interest on long-term debt	6,786	-	-	-	(6,786)	-	(6,786)
Total governmental activities	121,300	4,496	3,564	4,800	(108,440)	-0-	(108,440)
Business-type activities:							
Sewer	41,156	38,058	-	-	-	(3,098)	(3,098)
	\$ 162,456	\$ 42,554	\$ 3,564	\$ 4,800	(108,440)	(3,098)	(111,538)
General revenues:							
Property taxes					62,173	-	62,173
State shared revenue					71,883	-	71,883
Investment earnings					1,871	437	2,308
Miscellaneous					1,239	105	1,344
Total general revenues					137,166	542	137,708
Change in net assets					28,726	(2,556)	26,170
Net assets, beginning of the year					98,692	61,447	160,139
Net assets, end of the year					\$ 127,418	\$ 58,891	\$ 186,309

See accompanying notes to financial statements.

Township of North Star

GOVERNMENTAL FUNDS BALANCE SHEET

March 31, 2006

	General	Fire & Rescue	Total Governmental Funds
ASSETS			
Cash	\$ 57,829	\$ 4,090	\$ 61,919
Taxes receivable	2,977	1,862	4,839
Prepays	781	2,947	3,728
TOTAL ASSETS	<u>\$ 61,587</u>	<u>\$ 8,899</u>	<u>\$ 70,486</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES	\$ -	\$ -	\$ -0-
FUND BALANCES			
Reserved for			
Prepays	781	2,947	3,728
Streets	3,564	-	3,564
Unreserved			
Undesignated, reported in			
General fund	57,242	-	57,242
Special revenue fund	-	5,952	5,952
TOTAL FUND BALANCES	<u>61,587</u>	<u>8,899</u>	<u>70,486</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 61,587</u>	<u>\$ 8,899</u>	<u>\$ 70,486</u>

See accompanying notes to financial statements.

Township of North Star

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

March 31, 2006

Total fund balance - governmental funds \$ 70,486

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 191,173	
Accumulated depreciation is	<u>(18,405)</u>	
Capital assets, net		172,768

Long-term liabilities are not due and payable in the current period and
therefore are not reported in the Governmental Funds Balance Sheet.
Long-term liabilities at year-end consist of:

Installment purchase agreement	115,644	
Accrued interest payable	<u>192</u>	
		<u>(115,836)</u>

Net assets of governmental activities \$ 127,418

See accompanying notes to financial statements.

Township of North Star

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended March 31, 2006

	General	Fire & Rescue	Total Governmental Funds
REVENUES			
Taxes	\$ 46,268	\$ 23,851	\$ 70,119
Intergovernmental	71,883	-	71,883
Charges for services	114	-	114
Interest and rents	1,871	-	1,871
Other	1,239	-	1,239
TOTAL REVENUES	121,375	23,851	145,226
EXPENDITURES			
Current			
General government	47,570	-	47,570
Public safety	-	33,698	33,698
Public works	26,803	-	26,803
Debt service	14,305	-	14,305
TOTAL EXPENDITURES	88,678	33,698	122,376
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	32,697	(9,847)	22,850
OTHER FINANCING SOURCES (USES)			
Transfers in	-	14,249	14,249
Transfers out	(14,249)	-	(14,249)
TOTAL OTHER FINANCING SOURCES (USES)	(14,249)	14,249	-0-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	18,448	4,402	22,850
Fund balances, beginning of year	43,139	4,497	47,636
Fund balances, end of year	\$ 61,587	\$ 8,899	\$ 70,486

See accompanying notes to financial statements.

Township of North Star

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended March 31, 2006

Net change in fund balances - total governmental funds \$ 22,850

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense	(6,443)
----------------------	---------

Some items reported in the statement of activities are not available to finance expenditures of the fiscal period and therefore are not reported as revenues in the governmental funds. These activities consist of:

Capital contribution	4,800
----------------------	-------

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Payment of installment purchase agreement	7,507	
Decrease in accrued interest payable	<u>12</u>	
		<u>7,519</u>

Change in net assets of governmental activities	\$ 28,726
--	------------------

See accompanying notes to financial statements.

Township of North Star
Proprietary Fund
STATEMENT OF NET ASSETS
March 31, 2006

	Sewer Fund
ASSETS	
Current assets	
Cash	\$ 9,999
Accounts receivable	<u>20,827</u>
Total current assets	30,826
Noncurrent assets	
Capital assets not being depreciated	41,065
Capital assets, net of accumulated depreciation	<u>276,000</u>
Total noncurrent assets	<u>317,065</u>
TOTAL ASSETS	347,891
LIABILITIES	
Current liabilities	
Current portion of long-term debt	5,000
Noncurrent liabilities	
Bonds payable	<u>284,000</u>
TOTAL LIABILITIES	<u>289,000</u>
NET ASSETS	
Invested in capital assets, net of related debt	28,065
Restricted for debt service	2,122
Unrestricted	<u>28,704</u>
TOTAL NET ASSETS	<u>\$ 58,891</u>

See accompanying notes to financial statements.

Township of North Star

Proprietary Fund

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended March 31, 2006

	Sewer Fund
OPERATING REVENUES	
Charges for services	\$ 38,058
Other	105
TOTAL OPERATING REVENUES	38,163
OPERATING EXPENSES	
Salaries and wages	555
Fringe benefits	50
Administrative charge	564
Contractual services	1,170
Supplies	124
Utilities	1,541
Repairs and maintenance	9,041
Other	2,785
Depreciation	6,900
TOTAL OPERATING EXPENSES	22,730
OPERATING INCOME	15,433
NONOPERATING REVENUES (EXPENSES)	
Interest revenue	437
Interest expense	(18,426)
TOTAL NONOPERATING REVENUES (EXPENSES)	(17,989)
CHANGE IN NET ASSETS	(2,556)
Net assets, beginning of year	61,447
Net assets, end of year	\$ 58,891

See accompanying notes to financial statements.

Township of North Star
Proprietary Fund
STATEMENT OF CASH FLOWS
Year Ended March 31, 2006

	Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 35,313
Cash paid to suppliers	(22,371)
Cash paid for employee benefits	(50)
Cash paid to employees	(555)
	<u>12,337</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	12,337
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital purchases	(41,065)
Interest expense	(18,426)
Bond proceeds	289,000
Bonds defeased	(285,000)
Payments of borrowing	(10,000)
	<u>(65,491)</u>
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(65,491)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest revenue	437
	<u>437</u>
NET (DECREASE) IN CASH DURING YEAR	(52,717)
Cash, beginning of year	62,716
	<u>62,716</u>
Cash, end of year	<u>\$ 9,999</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 15,433
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	6,900
(Increase) in receivables	(2,850)
(Decrease) in accrued interest payable	(7,146)
	<u>(7,146)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 12,337</u>

See accompanying notes to financial statements.

Township of North Star
NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Township of North Star is located in Gratiot County, Michigan and has a population of approximately 1,000. The Township of North Star operates under an elected Township Board, which consists of a Supervisor, Clerk, Treasurer, and two trustees and provides services to its residents in many areas including general government, sewer services, and property tax collections.

The financial statements of the Township have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Township governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Township's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, *The Financial Reporting Entity* (as amended by GASB statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the Township of North Star. The Township has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of the Township of North Star contain all the funds controlled by the Township Board.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Township as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). Interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the Township and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

Township of North Star
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS

The fund financial statements present the Township's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the Township are:

- a. The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Fire & Rescue Fund is used to account for the financial resources used to provide fire protection and rescue services to the Township.
- c. The Sewer Fund accounts for resources generated by providing sewer services to residents of the Township; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

3. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. The length of time used to define "available" for purposes of revenue recognition is 60 days. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Township of North Star
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Accounting - continued

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

5. Budgets and Budgetary Accounting

The General and Special Revenue Funds' budgets were prepared on a basis consistent with the modified accrual basis used to reflect actual results. The Township employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. Prior to April 1, the Clerk submits the proposed operating budgets for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to April 1, the budget is legally adopted with passage by Board vote.
- d. The budget is legally adopted at the total expenditure level (i.e. fund) for the General Fund and the Special Revenue Fund; however, they are maintained at the account level for control purposes.
- e. After the budget is adopted all transfers of budgeted amounts between accounts within a fund or activity or any revisions that alter the total expenditures of a fund or activity must be approved by the Township Board.
- f. The Township does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at March 31 are not carried forward to the following fiscal year.
- g. Budgeted amounts are reported as originally adopted or as amended by the Township Board during the year. Individual amendments were appropriately approved by the Township Board in accordance with required procedures.

6. Cash

Cash consists of various checking accounts.

7. Property Tax

The Township of North Star bills and collects its own property taxes. The Township's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph.

Property taxes are levied by the Township of North Star on December 1 and are payable without penalty through September 15. All real property taxes not paid to the Township by April 15 are turned over to the Gratiot County Treasurer for collection. The Gratiot County Treasurer remits payments to all taxing districts on any delinquent real property taxes. Delinquent personal property taxes are retained by the Township for subsequent collection. Township property tax revenues are recognized as revenues in the fiscal year levied.

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Property Tax - continued

The Township is permitted to levy taxes up to 1.08 mills (\$1.08 per \$1,000 of assessed valuation) for general governmental services, and up to an additional 1 mill (\$1.00 per \$1,000 of assessed valuation) for fire and rescue services and 0.75 mills (\$0.75 per \$1,000 of assessed valuation) for debt service. For the year ended March 31, 2006, the Township levied 0.8365 mills for general governmental services, 0.9926 mills for fire and rescue services, and 0.75 mills for debt service.

8. Interfund Transactions

During the course of normal operations, the Township has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

9. Capital Assets

Capital assets include land, buildings, equipment and machinery, and the sewer system and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental and business-type activities columns. Capital assets are those with an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Sewer system and improvements	50 years
Equipment and machinery	5 years
Buildings	30 years

10. Long-term Liabilities

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

11. Comparative Data

Comparative data for the prior year has not been presented in all funds in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

Township of North Star

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE B: CASH

In accordance with Michigan Compiled Laws, the Township is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers' acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2006, the carrying amounts of the Township's deposits were \$71,918 and the bank balance was \$81,672. The Township's deposits were fully insured by the FDIC.

Due to significantly higher cash flow at certain periods during the year, the amount the Township held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of March 31, 2006, the Township did not have any investments that would be subject to rating.

Township of North Star
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE B: CASH - CONTINUED

Interest rate risk

The Township has not adopted a policy that addresses interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

Concentration of credit risk

The Township has not adopted a policy that addresses concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer.

Custodial credit risk

The Township has not adopted a policy that addresses custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer.

NOTE C: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds, and business type funds have been eliminated.

Transfers to Fire & Rescue Fund from:
General Fund

\$ 14,249

NOTE D: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2006 was as follows:

	Restated Balance <u>April 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>March 31, 2006</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 29,383	\$ -	\$ -	\$ 29,383
Capital assets being depreciated				
Buildings	155,490	-	-	155,490
Equipment	<u>1,500</u>	<u>4,800</u>	<u>-</u>	<u>6,300</u>
Subtotal	156,990	4,800	-0-	161,790
Less accumulated depreciation for:				
Buildings	(11,662)	(5,183)	-	(16,845)
Equipment	<u>(300)</u>	<u>(1,260)</u>	<u>-</u>	<u>(1,560)</u>
Subtotal	<u>(11,962)</u>	<u>(6,443)</u>	<u>-0-</u>	<u>(18,405)</u>
Net capital assets being depreciated	<u>145,028</u>	<u>(1,643)</u>	<u>-0-</u>	<u>143,385</u>
Total net capital assets	<u>\$ 174,411</u>	<u>\$ (1,643)</u>	<u>\$ -0-</u>	<u>\$ 172,768</u>

Township of North Star
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE D: CAPITAL ASSETS - CONTINUED

Depreciation expense in the amount of \$6,443 was charged to the general government function on the Statement of Activities.

	Balance April 1, 2005	Additions	Deletions	Balance March 31, 2006
Business-type activities				
Capital assets not being depreciated				
Construction in progress	\$ -	\$ 41,065	\$ -	\$ 41,065
Capital assets being depreciated				
Sewer system	345,000	-	-	345,000
Less accumulated depreciation for:				
Sewer system	(62,100)	(6,900)	-	(69,000)
Total capital assets being depreciated	<u>282,900</u>	<u>(6,900)</u>	<u>-0-</u>	<u>276,000</u>
Total net capital assets	<u>\$ 282,900</u>	<u>\$ (34,165)</u>	<u>\$ -0-</u>	<u>\$ 317,065</u>

NOTE E: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Township for the year ended March 31, 2006:

	Balance April. 1, 2005	Additions	Deletions	Balance Dec. 31, 2005	Amounts Due Within One Year
PRIMARY GOVERNMENT					
Governmental activities					
Installment purchase agreement	\$ 123,151	\$ -	\$ 7,507	\$ 115,644	\$ 7,921
Business-type activities					
Sewer Fund					
1996 Sewer Bonds	295,000	-	295,000	-0-	-
2006 Refunding Bonds, Series A	-	221,000	-	221,000	4,000
2006 Refunding Bonds, Series B	-	68,000	-	68,000	1,000
Total	<u>\$ 418,151</u>	<u>\$ 289,000</u>	<u>\$ 302,507</u>	<u>\$ 404,644</u>	<u>\$ 12,921</u>

Significant details regarding outstanding long-term debt (including current portion) are presented below:

\$155,490 Installment Purchase Agreement dated January 21, 2002, due in annual installments ranging from \$7,921 to \$13,557 through March 20, 2017, with interest of 5.52 percent, payable annually.

\$ 115,644

Current Borrowing

On January 30, 2006, the Township authorized the issuance of \$444,000 2006 General Obligation Limited Tax Bonds, Series A, and \$107,000 2006 General Obligation Limited Tax Bonds, Series B, totaling \$551,000 for the purpose of performing maintenance on the Townships sewer system and refunding existing debt. As of March 31, 2006, the Township had drawn down \$289,000, leaving a balance of \$262,000 to be drawn down subsequent to year end. Because these bonds have not been drawn down in full a payment schedule cannot be determined at this time.

Township of North Star

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE E: LONG-TERM DEBT - CONTINUED

Advance Refunding - Current

On January 30, 2006 the Township defeased the 1996 Gratiot County Sewer Bonds, which are due and payable May 1, 2006 through May 1, 2022. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The Township issued 2006 General Obligation Limited Tax Bonds, Series A, and 2006 General Obligation Limited Tax Bonds, Series B, in the amount of \$551,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the Township's financial statements. At March 31, 2006, bonds due and payable May 1, 2006 through May 1, 2022 for the 1996 Gratiot County Sewer Bonds in the amount of \$285,000 are considered defeased.

Because the Township has not drawn down the full amount of the refunding bonds prior to year end, the amount of economic gain (difference between the present value of the debt service payments on the old and new debt) cannot be determined.

The annual requirements to pay the debt principal and interest outstanding for the installment purchase agreement are as follows:

<u>Year Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 7,921	\$ 6,384	\$ 14,305
2008	8,359	5,946	14,305
2009	8,820	5,485	14,305
2010	9,307	4,998	14,305
2011	9,821	4,484	14,305
2012-2016	57,859	13,666	72,525
2017	<u>13,557</u>	<u>748</u>	<u>14,305</u>
	<u>\$ 115,644</u>	<u>\$ 41,711</u>	<u>\$ 157,355</u>

NOTE F: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the required supplementary information to the financial statements, the Township's budgeted expenditures in the General and Special Revenue Funds have been shown at the functional classification level. The approved budgets of the Township have been adopted at the total expenditure level for the General Fund and the Special Revenue Fund.

During the year ended March 31, 2006, the Township incurred expenditures in the General Fund and Special Revenue Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund	\$ 74,350	\$ 102,927	\$ 28,577
Fire & Rescue Fund	25,700	33,698	7,998

Township of North Star
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE G: FUND BALANCE RESERVES

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use.

The following are the fund balance reserves as of March 31, 2006:

General Fund	
Reserved for	
Prepays	\$ 781
Streets	<u>3,564</u>
	<u>\$ 4,345</u>
Fire & Rescue Fund	
Reserved for prepaids	<u>\$ 2,947</u>

NOTE H: RESTRICTED NET ASSETS

Restrictions of net assets shown in the Proprietary Fund and Government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source (bond ordinance, etc.) which precludes their use for unrestricted purposes. The following represents the net asset restriction as of March 31, 2006:

Business-type activities	
Restricted for debt service	<u>\$ 2,122</u>

NOTE I: RISK MANAGEMENT

The Township participates in a pool, the Michigan Municipal League Liability and Property Pool, with other municipalities for property, crime, general liability, public officials' liability, automobile liability, and employee benefit liability. The pool is organized under Public Act 138 of 1982, as amended. The Township has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

The Township also participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The Township has no liability for additional assessments based on the claims filed against the pool nor do they have any rights to dividends.

REQUIRED SUPPLEMENTARY INFORMATION

Township of North Star

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 26,600	\$ 26,600	\$ 46,268	\$ 19,668
Intergovernmental	71,900	71,900	71,883	(17)
Charges for services	-	-	114	114
Interest and rents	1,600	1,600	1,871	271
Other	-	-	1,239	1,239
TOTAL REVENUES	100,100	100,100	121,375	21,275
EXPENDITURES				
General government				
Legislative	10,200	10,200	8,572	1,628
Supervisor	7,000	7,000	5,956	1,044
Clerk	7,600	7,600	6,999	601
Board of review	500	500	450	50
Treasurer	8,450	8,450	7,678	772
Assessor	4,550	4,550	5,407	(857)
Hall and grounds	8,650	8,650	9,039	(389)
Cemetery	500	500	1,000	(500)
Other	2,300	2,300	2,469	(169)
Total general government	49,750	49,750	47,570	1,858
Public works				
Highways and streets	15,800	15,800	19,129	(3,329)
Drains	6,500	6,500	6,075	425
Street lights	2,300	2,300	1,599	701
Total public works	24,600	24,600	26,803	(2,203)
Debt service				
Principal	-	-	7,507	(7,507)
Interest	-	-	6,798	(6,798)
Total debt service	-0-	-0-	14,305	(14,305)
TOTAL EXPENDITURES	74,350	74,350	88,678	(14,650)
EXCESS OF REVENUES OVER EXPENDITURES	25,750	25,750	32,697	6,625

Township of North Star

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
OTHER FINANCING USES				
Transfers out	\$ -	\$ -	\$ (14,249)	\$ (14,249)
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	25,750	25,750	18,448	(7,624)
Fund balance, beginning of year	43,139	43,139	43,139	-0-
Fund balance, end of year	<u>\$ 68,889</u>	<u>\$ 68,889</u>	<u>\$ 61,587</u>	<u>\$ (7,624)</u>

Township of North Star

Fire & Rescue Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ -	\$ -	\$ 23,851	\$ 23,851
EXPENDITURES				
Public safety	<u>25,700</u>	<u>25,700</u>	<u>33,698</u>	<u>(7,998)</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(25,700)	(25,700)	(9,847)	31,849
OTHER FINANCING SOURCES				
Transfers in	<u>25,705</u>	<u>25,705</u>	<u>14,249</u>	<u>(11,456)</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	5	5	4,402	20,393
Fund balance, beginning of year	<u>4,497</u>	<u>4,497</u>	<u>4,497</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 4,502</u>	<u>\$ 4,502</u>	<u>\$ 8,899</u>	<u>\$ 20,393</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
Township of North Star
Ithaca, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Township of North Star, Michigan, as of and for the year ended March 31, 2006, and have issued our report thereon dated April 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township of North Star's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township of North Star's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management and the Board of Trustees of the Township of North Star in a separate letter dated April 18, 2006.

This report is intended solely for the information and use of the management and Board of Trustees of the Township of North Star, the pass-through grantors, and the Federal award agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 18, 2006

East Lansing ■ Rochester Hills ■ St. Johns

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

MANAGEMENT LETTER

To the members of the Township Board
Township of North Star
Ithaca, Michigan

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of the Township of North Star for the year ended March 31, 2006. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the Township's internal controls and our discussions with management.

1. The Township should adopt and implement a conflict of interest policy.

During the course of our audit, we noted the Township has not developed or implemented a policy concerning conflict of interest as part of the policy manual. A conflict of interest policy will clarify the Township's position on ethical behavior and communicate that position to employees and board members.

We suggest the Township develop and implement a policy addressing conflict of interest and include it in the policy manual and periodically require a declaration of compliance from employees and board members. The Township should also obtain conflict of interest disclosure statements from its employees and board members.

2. The Township should adopt and implement a fraud risk management program.

During our discussions with management, we noted that the Township does not have a formal risk management program. Lack of policies and procedures related to fraud risk could potentially allow fraud to occur and be unreported or undetected.

We suggest the Township adopt a formal fraud risk management program. The program should include policies and procedures on ways for management to prevent, detect, and deter fraudulent activities.

3. The Township should maintain appropriate control of cash disbursements.

During the course of our audit we noted that the Township wrote a check from the General Fund to the Fire & Rescue Fund to transfer money to be used to pay on a fire service contract. That check was then delivered to and cashed by the City of Ithaca in error. Maintaining appropriate control of cash disbursements is a key internal control activity. A clear trail should exist from the point of disbursement from one fund through the deposit in the other fund.

We suggest the Township review disbursement procedures to ensure that all interfund disbursements and receipts are conducted and accounted for appropriately.

4. The Township should ensure all financial activities are recorded in the general ledger.

During the course of our audit, it was noted that various financial activities (hall debt millage, fire and rescue, and current tax collections/distributions) were not recorded in the Township's computerized general ledger.

We suggest the Township ensure all financial activities are recorded in the Township's computerized general ledger.

5. The Township should monitor and amend budgets for applicable funds as necessary.

During the course of our audit, we noted instances where expenditures had been incurred in excess of amounts appropriated. These were noted in the General Fund and Special Revenue Fund.

Michigan Public Act 621 of 1978, as amended, provides that the Board shall adopt formal budgets for the General and all Special Revenue funds and shall not incur expenditures in excess of the amounts appropriated. The budget must include all anticipated expenditures and the related revenue and fund equity to fund these expenditures.

We suggest that the Township adopt and amend its budgets through Board resolution and monitor budgeted against actual expenditures.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements and this report does not affect our report on the financial statements dated April 18, 2006.

This report is intended solely for the use of management and the Board of Trustees of the Township of North Star and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 18, 2006